Northside Group Inc.

1998 Annual Report

Corporate Profile

Northside Group Inc.

Northside Group Inc. is an engineering-driven manufacturing company with two operating divisions. The Company's Wittke Division, in Medicine Hat, Alberta, manufactures equipment for the waste management industry including refuse trucks, waste containers and street sweepers. The Company's Kelowna Division, in Kelowna, British Columbia, manufactures steel and aluminum parts and assemblies for the Class 8 truck industry. Northside Group is headquartered in Calgary, Alberta and employs over 400 people. Its shares are publicly traded on the Alberta Stock Exchange and are listed under the ticker symbol NTG.

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ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders will be held at the Calgary Petroleum Club (Viking A & B Rooms), 319 - 5th Ave. S.W., Calgary, Alberta on January 28, 1999 at 2:00 p.m. MST.

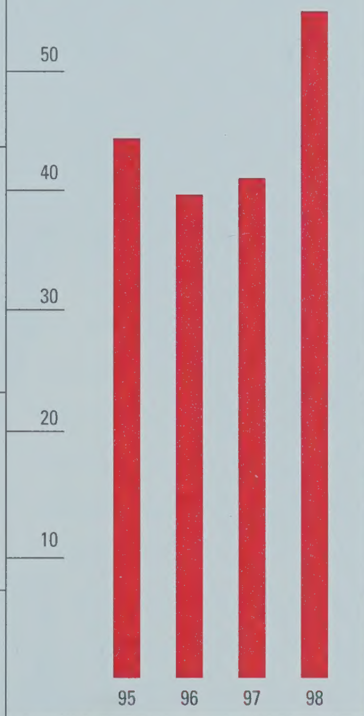
Northside Group Inc.

OPERATIONS[1] ($000's)	1998	1997
Revenue	**$ 54,256**	$ 40,732
Net earnings (loss)	**$ 2,115**	$ (466)
Operating cash flow[2]	**$ 4,581**	$ 1,126
PER COMMON SHARE[1] ($)		
Net earnings (loss) – basic	**$ 0.33**	$ (0.07)
Net earnings (loss) – fully diluted	**$ 0.31**	$ (0.07)
Common shares outstanding	**6,388,903**	6,267,253
FINANCIAL[1] ($000's)		
Working capital (deficiency)	**$ 2,877**	$ (1,529)
Capital expenditures	**$ 1,581**	$ 1,949
Long-term debt	**$ 4,968**	$ 3,508
Shareholders' equity	**$ 7,884**	$ 5,588

1 *All data is for the fiscal year ended September 30.*
2 *Operating cash flow is before changes in non-cash working capital.*

REVENUE[1]

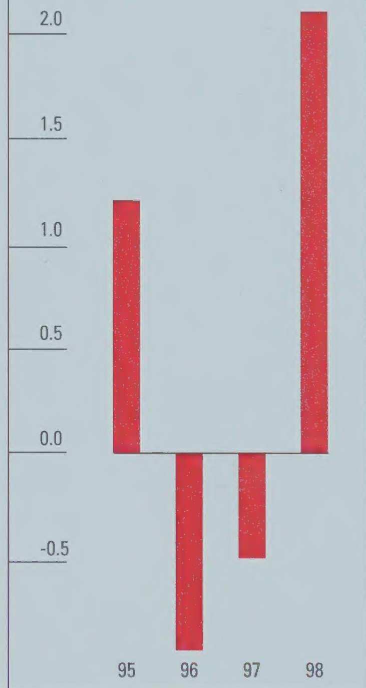
($ millions)



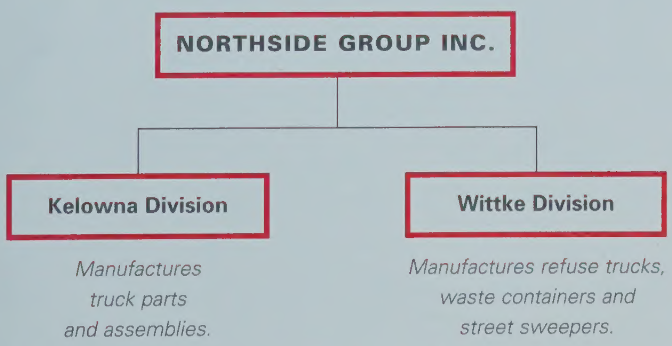
Revenue *growth occurred in fiscal 1998 in both divisions due to a combination of increased volumes and new business.*

NET EARNINGS (LOSS)[1]

($ millions)



Net earnings *improved significantly to $2.1 million in fiscal 1998 compared to losses in each of the prior two years.*



Northside Group Inc. had a successful year in fiscal 1998 with improved performance relative to the previous two years. The Company was profitable during every quarter of the year ended September 30, 1998 and reported net earnings for the year of $2.1 million ($0.33 per share) compared to a loss of $0.5 million (a loss of $0.07 per share) in fiscal 1997.

STRONG DEMAND IN BOTH DIVISIONS

During fiscal 1998, the Northside Group experienced strong demand for its products in both areas of manufacturing operations – truck parts and waste disposal equipment. Demand for Class 8 truck parts reached record levels as virtually every heavy truck manufacturer in North America increased production. Supporting this demand was the Company's emphasis on strengthening relations with existing customers and establishing new relationships with others.

In the waste equipment industry, the year was characterized by continued mergers and consolidations of customers. However, these activities are proving to be beneficial for the Northside Group as they continue to result in a larger and stronger customer base.

HIGHLIGHTS FOR THE YEAR

Many significant accomplishments during the year have positioned the Company for continued growth in each area of operations, some of which include:

- Both divisions added significant new customers and grew relations with existing customers;
- Improved safety programs resulted in reduced costs in each division;
- A profit sharing plan was introduced for all employees;
- A three-year labour contract was signed with employees in the Kelowna Division;
- The balance sheet was strengthened through more efficient working capital management, improved profitability and modest capital expenditures;
- The Wittke Division expanded its product line through the acquisition of the assets of a street sweeper company; and
- Subsequent to year-end, a five-year contract was signed to supply fuel tanks to Volvo Trucks North America, Inc.

A CHALLENGING ECONOMIC OUTLOOK

Currently, it appears that the North American economy may slow in the face of a worldwide economic contraction. If this occurs, demand for the Northside Group's products could decline. In anticipation of this potential decline, the Company initiated several development opportunities in 1998. For example, the supply agreement with Volvo Trucks North America will result in the Kelowna Division commencing construction of a new plant in Virginia. In addition, the Wittke Division's acquisition of the street sweeper business will diversify its product mix and revenue base. Opportunities such as these are expected to somewhat offset the impact of a potential decline in demand.

Our strategy will be to continue to undertake suitable growth initiatives without compromising the quality and the profitable operation of our business. This strategy, combined with the ongoing support of our employees, will enable us to successfully meet the challenges of 1999.

On behalf of the Board of Directors, we would like to thank all of our employees for their contributions and commitment.

Stephen W.C. Mulherin
Chief Executive Officer

T. Jerrold Jackson
Chief Financial Officer

Kelowna Division

TRUCK PARTS AND ASSEMBLIES

Specializing in the manufacture of truck parts and assemblies, the Kelowna Division concentrated on improving quality and operations during fiscal 1998. The quality initiatives resulted in a reduction in rework, rejects and returns, while improved efficiencies were achieved through the upgrade of capital equipment and investment in new equipment. These endeavors led to increased profitability for this Division during the year. While these efforts were a significant step in the right direction, we believe there is more that can be done to continue improving quality and efficiency measures to target levels.

QUALITY CERTIFICATION COMPLETED

As evidence of the focus on quality, this Division was ISO 9002 Certified in September 1998. While this certification is becoming increasingly common, it was an important achievement for the Division. Unique factors, such as operations that comprise 225 employees producing thousands of different parts every month for numerous customers, make us particularly proud of our achievement. This certification was accomplished in the first attempt as a result of the support and participation of our employees. The ISO 9002 certification has been instrumental in attracting new business from a number of customers.

Fuel tanks are an important product manufactured at the Kelowna Division.

CUSTOMER RELATIONS

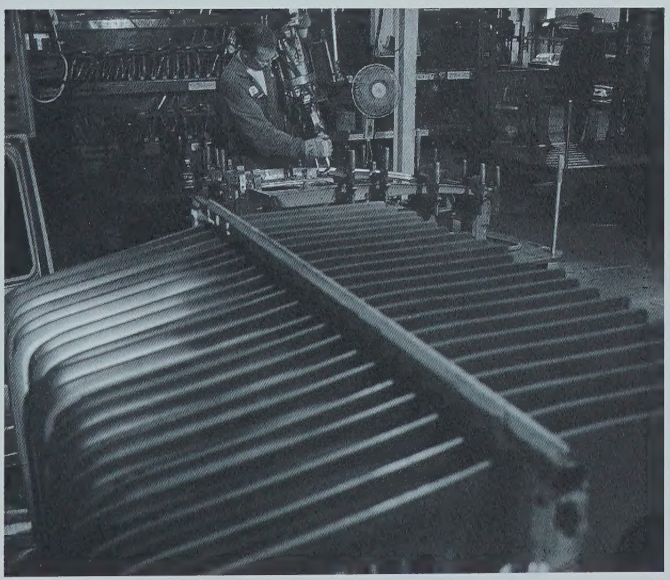
Management continues to focus on customer service in the interest of preserving mutually beneficial long-term relationships and developing new relationships within the marketplace. The Kelowna Division will continue to target incremental business from these customers.

An important customer of the Kelowna Division continues to be Western Star Trucks of Kelowna, British Columbia. During 1998, however, some products that the Kelowna Division had been producing for this customer were discontinued or supplied by others. For example, parts for sleeper cabs had been stamped by the Kelowna Division until August 1998, when Western Star decided to utilize a composite material sourced from the United States. Despite the loss of a portion of this business, revenues from this customer increased throughout the year as the number of trucks that Western Star built increased to 27 per day by the end of fiscal 1998 from 18 per day at the beginning of the year.

The diversification of both products and customers, beginning in fiscal 1997, continued in 1998. Sales to Seattle-based PACCAR, the manufacturer of Kenworth and Peterbilt trucks, have increased significantly and further growth is expected during fiscal 1999. The Kelowna Division became "Quality Certified" by the Paccar organization in September 1998.

NEW CONTRACTS

During the year, the Division was awarded its first significant business from Freightliner (a wholly-owned subsidiary of Mercedes Benz), the largest manufacturer of Class 8 trucks in North America. The highly technical part ordered by Freightliner will be produced by the Kelowna Division, and is further evidence of our ability to attract new sales and to deliver quality products. It is expected that revenues from this project will commence in early fiscal 1999.



The stamping and assembly of truck doors are only one key component of the Kelowna Division's capabilities at its manufacturing facility.

Subsequent to the year-end, the Division entered into a five-year supply agreement with Volvo Trucks North America for the supply of all of its standard fuel tanks. This agreement has resulted in the Kelowna Division establishing a new plant near Volvo's truck plant in Dublin, Virginia. Based on Volvo's current truck production rates, this project is expected to generate annual revenues of approximately C$14.0 million commencing July 1, 1999. Capital required for this project is approximately C$4.0 million, and will come from existing working capital and/or new lines of credit.

OUTLOOK

The 1998 fiscal year for the Class 8 heavy-duty truck industry was one of the most active. In addition, the backlog for new Class 8 trucks is as high as it has ever been for virtually all manufacturers. However, this increased demand is not expected to remain for an extended period, particularly in the face of a possible softening North American and world economy. Accordingly, a cautious approach to capital expenditures will apply for this Division unless investments are tied to a long-term commitment, as in the case of the Volvo fuel tank project.

The manufacturing of truck parts continues to be a highly competitive and cyclical business. Management will continue to cautiously seek opportunities to grow its business provided that such growth can be achieved on a profitable basis. The facility in Kelowna continues to have capacity to attract additional business from either existing or new customers.

Wittke Division

WASTE EQUIPMENT

A manufacturer of refuse trucks, waste containers and street sweepers, the Wittke Division ("Wittke") staged a significant turnaround in its business in fiscal 1998. While revenues from the sale of refuse trucks were close to the level achieved in the previous year, profitability was improved. This was accomplished primarily by focusing marketing efforts on front load products as well as reducing the number of variations offered in these products. The results were higher quality products, fewer warranty claims and increased demand for Wittke products. A decision to sell truck chassis directly to customers also had a positive impact on the Division's revenue. Wittke's profits during the year benefited from the weak value of the Canadian dollar relative to the U.S. currency.

The Wittke Division's line of front load trucks continues to be its main focus. Sales of these efficient lightweight vehicles represented the majority of the Division's revenues in 1998. Our continued ability to engineer lightweight products, with outstanding durability, has been identified as a significant competitive advantage. Increasing customer requirements, combined with more stringent weight laws, creates a need for strong, durable and lightweight equipment. Reduced weight directly translates to increased payload capacity and, hence, improved hauling efficiencies for the Division's customers.

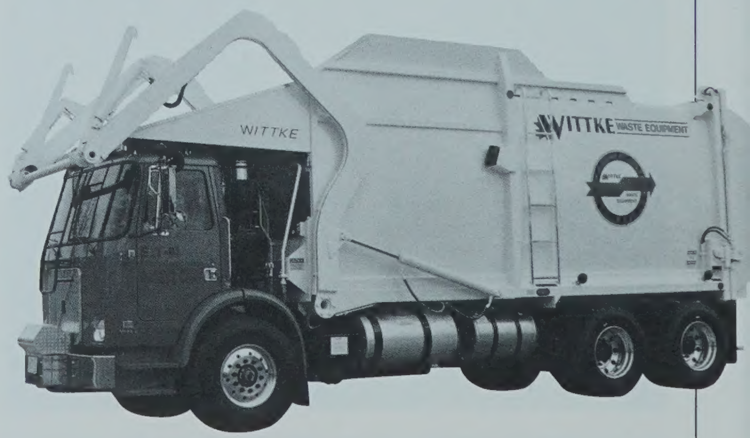
In addition to its line of front load trucks, Wittke has continued to improve other important products. In fiscal 1998, marketing began on manual side load trucks that are now beginning to receive market acceptance. During the year, approximately 20% of total trucks sold by Wittke were manual side loaders. In addition, Wittke began to build some automatic loading residential trucks that are currently being tested by key customers. This Division will continue to carefully explore ways to expand its product line where it can do so with standardized, proven equipment.

MARKET CONDITIONS

The Wittke Division's market continued to change in fiscal 1998. The waste hauling industry is experiencing continuing consolidation. For example, the Division's largest customer, USA Waste, merged with industry giant, Waste Management Inc. Wittke continues to be an important supplier to the merged company. It appears that this customer and others are challenged by aging fleets of equipment which require significant updating.

The high level of Class 8 truck demand resulted in a significant extension to the lead time required for the delivery of truck chassis. In response to the long lead time required, the Wittke Division began purchasing chassis in an attempt to smooth out production and continue to be in a responsive position to meet customer demand. This strategy resulted in increased revenues without a significant change to profitability. In addition, Wittke was able to supply finished trucks on a more timely basis.

The Wittke Division continues to be committed in the competitive waste container market, principally in Western Canada and the U.S. Pacific Northwest.



Wittke Division's largest revenue producer is the front load refuse truck.

NEW MARKETS

During 1998, Wittke began selling trucks to Browning Ferris Inc. ("BFI"), the second largest waste hauling company in North America. While this new relationship was developed gradually, it now represents a very important customer. In some regions, the Division has become BFI's exclusive supplier of certain products and there is potential to greatly expand this relationship. Wittke continues to be an important supplier to many other companies including Allied Waste and numerous private haulers across North America. Additionally, municipalities and smaller local and regional operators increasingly look to Wittke to fulfill their waste equipment needs.

In the fourth quarter of 1998, Wittke acquired a street sweeper business to diversify its product mix and revenue base. Sweeper products and parts will be manufactured at Wittke's facilities in Medicine Hat, Alberta and will be sold in similar markets as its existing waste equipment. The North American market for street sweepers is estimated to be in the range of 1,200 to 1,500 units per year. The average selling price of a sweeper is approximately $75,000, plus the cost of the vehicle chassis on which the sweepers are mounted. In the last few years, this business has sold between 35 and 50 units annually.

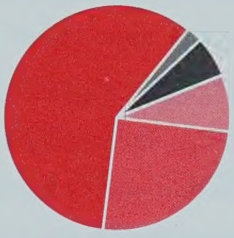
INITIATIVES FOR GROWTH

The Wittke Division has a number of promising prototype products that have been developed and tested over the past year. In addition, this Division continues to seek to reduce the weight of its trucks. The Division is also testing various technologies that would respond to the growing demand for automation. Only after extensive testing and re-testing will new products be successfully brought to market.

The growing population of Wittke units has created higher demand and need for service facilities throughout North America. To that end, Wittke has established a bi-monthly, three-day service education program. Close to 200 service technicians and mechanics were trained in Wittke's Medicine Hat facility during the past year. These individuals came from both end users and factory-appointed service depots.

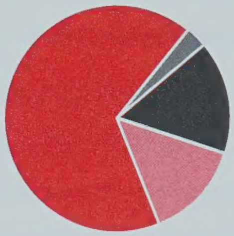
To augment the drive to improve quality and dependability, Wittke invited a number of key suppliers to audit existing applications and to recommend innovative approaches to their products.

REVENUE *(000's) Years ended September 30*



Total Revenue for 1998

Refuse trucks	$ 17,706	59%
Chassis	$ 7,488	25%
Containers	$ 2,320	8%
Intermodals	$ 1,700	6%
Parts and service	$ 1,043	2%
	$ 30,257	100%



Total Revenue for 1997

Refuse trucks	$ 14,437	67%
Containers	$ 3,046	14%
Intermodals	$ 3,435	16%
Parts and service	$ 564	3%
	$ 21,482	100%

OUTLOOK

Competition in the waste equipment business will continue to be strong. While the Wittke Division has established itself as the largest manufacturer of waste equipment in Canada, it faces significant challenges from three or four larger U.S. competitors. To remain competitive, the Wittke Division must continue to focus on improving manufacturing and marketing efficiencies.

Entering fiscal 1999, the Wittke Division has a strong backlog of orders and is pursuing additional orders and new customers.

OPERATING RESULTS

In fiscal 1998, consolidated revenue increased to $54.3 million from $40.7 million in 1997.

In the Kelowna Division, revenues increased by 24.1% to $24.0 million in 1998 from $19.5 million in 1997. This increase was attributable to several factors including an increase in the build rate of Kelowna's largest customer as well as increased new business from other Class 8 truck manufacturers.

Revenues also increased in the Wittke Division, growing to $30.3 million in 1998 from $21.3 million in 1997. Approximately $7.5 million of the revenue increase arose from the sale of truck chassis to customers. In previous years, all of Wittke's trucks were mounted on customer-owned chassis. Due to an industry-wide shortage of chassis in 1998, Wittke began to purchase chassis directly from truck manufacturers in anticipation of customer demand. Wittke then sold these chassis to its customers when the customers purchased a refuse truck body. This change resulted in greater revenue for Wittke, but did not result in a substantial increase in dollars of gross margin.

Sales of refuse trucks in the Wittke Division increased in the year, resulting in $2.3 million of additional revenue compared to 1997. Sales of waste containers increased, but this increase was more than offset by a decrease in sales of intermodal containers. Sales of parts and service increased 85% to $1.0 million.

Consolidated gross profit increased to $10.6 million (19.5% of revenue) from $6.6 million (16.1% of revenue) in 1997. Excluding the revenue and related gross margin from the sale of chassis at Wittke as described previously, consolidated gross profit as a percent of revenue would have been 22.6%. The increase in gross profit percentage occurred as a result of several factors including improved operating efficiencies at each division, a reduction in the variation of products offered, and, particularly at Wittke, a weaker Canadian dollar. In 1997, margins were adversely affected by high warranty costs at Wittke, due to some design and manufacturing problems that have since been corrected.

Consolidated selling, general, and administrative expenses increased to $4.3 million from $3.8 million in 1997. Increases occurred in each division to support the higher revenue base and to support the increased emphasis on quality.

Depreciation and amortization expense increased to $1.7 million from $1.5 million in 1997 due to a greater level of capital assets in place.

Results in 1997 were adversely affected by the write-down of assets related to the fibre-reinforced plastic parts business. In addition, a

SUMMARY OF CONSOLIDATED OPERATING RESULTS

(000's) Years ended September 30	**1998**	1997
Revenue	**$ 54,256**	$ 40,732
Gross profit	**10,588**	6,552
Gross margin (%)	**19.5%**	16.1%
S, G & A expenses	**4,334**	3,780
Restructuring costs	**–**	624
R & D expenses	**23**	59
Earnings before interest, taxes and depreciation	**6,231**	2,089
Depreciation and amortization	**1,661**	1,450
Write-down of deferred costs	**–**	299
Earnings before interest and taxes	**4,570**	340
Interest	**848**	836
Earnings (loss) before taxes	**3,722**	(496)
Income tax expense (recovery)	**1,607**	(30)
Net earnings (loss)	**$ 2,115**	$ (466)
Per share ($)	**$ 0.33**	$ (0.07)

provision of $0.6 million was taken in 1997 with respect to a management reorganization in the Kelowna Division.

Earnings before interest and taxes were $4.6 million in 1998 compared to $0.3 million in the prior year.

Interest expense totaled $0.8 million in 1998, unchanged from the previous year. In 1998, the Company experienced reduced interest costs due to a lower interest rate on the operating loan and lower average outstanding balances. Interest expense in 1997 included interest costs for leases which were entered into part-way through the year.

Income tax expense for the year was at an average rate of 43.2%, which was approximately equal to the statutory income tax rate. In 1998, the Company fully utilized all of its available non-capital losses carried forward for tax purposes and is currently in a taxable position.

Net earnings were $2.1 million ($0.33 per share) compared to a loss of $0.5 million (a loss of $0.07 per share) in 1997.

LIQUIDITY AND CAPITAL RESOURCES

Cash generated from operations, before changes in working capital, was $4.6 million, compared to $1.1 million in 1997. This increase is attributable to the higher level of earnings and the inclusion of $0.7 million of deferred tax expense in 1998, which did not require an outlay of cash.

As at September 30, 1998 the Company's working capital position had improved by $4.4 million compared to the prior year. Working capital was $2.9 million compared to a working capital deficiency of $1.5 million in 1997.

An additional investment in working capital of $0.9 million was required in order to support the Company's larger investment in accounts receivable and inventory which increased as a result of higher volumes sold in each division. In addition to the increased level of current assets discussed previously, in 1998, the Company paid approximately C$1.0 million of U.S. federal excise taxes that were owing at the end of 1997. The liability for these taxes was accounted for as a prior period adjustment in 1997.

No additional credit facilities were obtained in 1998. Unused credit availability under the operating line was $1.7 million as at September 30, 1998.

The Company maintains all of its long-term debt, including capital lease obligations, on a fixed-rate basis. The interest rate on the operating line is at bank prime plus 1%.

CONSOLIDATED SOURCES AND USES OF CAPITAL

(000's) Years ended September 30	**1998**	1997
Sources of capital		
Operations	**$ 4,581**	$ 1,126
Long-term debt	**–**	1,804
Advances from shareholders	**151**	92
Equity	**31**	–
Bank indebtedness	**–**	70
	$ 4,763	$ 3,092
Uses of capital		
Business acquisition	**$ 875**	$ –
Non-cash working capital	**858**	287
Debt repayment	**578**	554
Bank indebtedness	**886**	–
Pre-production costs	**–**	225
Product development	**–**	157
Capital expenditures – net	**1,566**	1,869
	$ 4,763	$ 3,092

Based on commitments as at September 30, 1998, scheduled minimum required principal payments on long-term debt will aggregate $0.6 million in fiscal 1999.

CAPITAL EXPENDITURES

The Company invested $1.8 million in capital assets during the year. Funding of these purchases was made from operating cash flow.

Approximately $1.0 million was invested in various items of capital equipment in the Kelowna Division, including a 500-ton mechanical press, a 150-ton mechanical press, building improvements and various equipment.

In the Wittke Division, total capital investment was $0.8 million including the acquisition of jigs and fixtures relating to the street sweeper product, jigs and fixtures to improve production efficiency and several building improvement-related projects.

RISKS AND UNCERTAINTIES

The demand for the products of the Kelowna and Wittke Divisions tends to be related to the overall level of economic activity in North America. A reduction in the build rate of any of the Company's customers could adversely affect sales and net income.

For the year ended September 30, 1998, the Company derived 39% of its revenue from sales to one customer compared to 42% last year.

The North American waste hauling industry underwent further consolidation in 1998. One customer of the Wittke Division accounted for 20% of the Company's consolidated revenues in 1998. Should further consolidation occur and/or capital expenditure programs be curtailed, there could be a material impact on the revenues of the Wittke Division.

In 1998, approximately 37% (1997 – 35%) of the Company's sales were to U.S.-based customers, made in U.S. dollars. Consequently, the net revenue to the Company is dependent on the exchange rate between the U.S. and Canadian currency. The Company has not undertaken any specific hedging strategies, but may do so in 1999.

YEAR 2000

The Company has conducted a review of its computer systems to identify the systems that could be affected by the "Year 2000" issue and has developed a plan to deal with this issue. The Year 2000 issue is the result of computer programs being written using two digits rather than four to identify the applicable year. Computer programs may recognize a date using "00" as the year 1900 rather than the year 2000. This problem creates risk for the Company from unforeseen problems in its own computer systems and from third parties with whom the Company deals.

Most internal systems are Year 2000 compliant. Some personal computers will require upgrading. Anticipated costs of this upgrade are less than $50,000.

1999 OUTLOOK

Growth of revenue and earnings in 1999 is expected but will be dependent on several factors including the overall health of the economy in North America, acceptable utilization of the additional assets purchased in 1998 and the successful launch of a new fuel tank manufacturing plant in Virginia.

In the Class 8 truck market, demand is expected to be strong, but is unlikely to grow significantly over 1998 levels. The Kelowna Division must increase its market share with existing customers during 1999 in order to achieve significant growth.

In the Wittke Division, the current backlog is strong. The addition of new customers in this Division during 1998 bodes well for growth in 1999.

Management's Responsibility for Financial Reporting

The financial statements of Northside Group Inc. and all the information in this annual report have been prepared by management, which is responsible for the integrity and fairness of the data presented. The accounting policies followed in the preparation of these financial statements conform with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial information presented elsewhere in this annual report is consistent with that in the financial statements.

Systems of internal accounting and administrative controls are maintained by management in order to provide reasonable assurance that financial information is relevant, reliable and accurate and that transactions are authorized, assets are safeguarded and proper records are maintained.

The Audit Committee, comprised of non-management directors, acts on behalf of the Board of Directors to ensure that management fulfills its financial reporting and internal control responsibilities. The Audit Committee has reviewed the consolidated financial statements with management and the Corporation's external auditors and reported to the Board of Directors. The Board of Directors has approved the financial statements based upon the recommendations of the Audit Committee.

Northside Group Inc.'s external auditors have conducted an independent audit of the financial statements in accordance with generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express an audit opinion on the consolidated financial statements. The external auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings.

Stephen W.C. Mulherin
Chief Executive Officer

T. Jerrold Jackson
Chief Financial Officer

Auditors' Report

To the Shareholders of Northside Group Inc.

We have audited the consolidated balance sheets of Northside Group Inc. as at September 30, 1998 and 1997 and the consolidated statements of operations and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG LLP
Chartered Accountants
Calgary, Alberta
October 30, 1998

Consolidated Balance Sheets

ASSETS *as at September 30 (thousands of dollars)*	1998	1997
Current assets		
Accounts receivable	**$ 9,989**	$ 7,909
Inventories (Note 3)	**8,098**	5,982
Income taxes recoverable	**–**	394
Prepaid expenses	**277**	105
	18,364	14,390
Capital assets (Note 4)	**9,249**	8,990
Other assets (Note 5)	**1,566**	1,752
	$ 29,179	$ 25,132
LIABILITIES		
Current liabilities		
Bank indebtedness (Note 6)	**$ 4,582**	$ 5,468
Accounts payable and accrued liabilities	**9,617**	7,816
Income taxes payable	**690**	–
Current portion of long-term debt (Note 7)	**598**	2,635
	15,487	15,919
Long-term debt (Note 7)	**4,968**	3,508
Deferred income taxes	**840**	117
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	**5,180**	4,999
Retained earnings	**2,704**	589
	7,884	5,588
	$ 29,179	$ 25,132

See accompanying Notes to Consolidated Financial Statements

Approved on behalf of the Board of Directors:

S.W.C. Mulherin
Director

Craig H. Hansen
Director

Years ended September 30 (thousands of dollars, except per share amounts)	1998	1997
Revenue (Note 9)	**$ 54,256**	$ 40,732
Cost of sales	**43,668**	34,180
Gross profit	**10,588**	6,552
Expenses		
Selling, general, and administrative	**4,334**	3,780
Research and development	**23**	59
Depreciation and amortization	**1,661**	1,450
Earnings before undernoted items	**4,570**	1,263
Write-down of capital assets and deferred product development costs	**–**	299
Management restructuring charges (Note 10)	**–**	624
Earnings before interest and taxes	**4,570**	340
Interest		
Long-term	**565**	556
Other	**283**	280
Earnings (loss) before income taxes	**3,722**	(496)
Income tax expense (recovery) (Note 11)	**1,607**	(30)
Net earnings (loss)	**2,115**	(466)
Retained earnings, beginning of year	**589**	1,055
Retained earnings, end of year	**2,704**	589
Earnings (loss) per share – basic	**$ 0.33**	$ (0.07)
– fully diluted	**$ 0.31**	$ (0.07)

See accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Changes in Financial Position

Years ended September 30 (thousands of dollars)	**1998**	1997
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net earnings (loss)	**$ 2,115**	$ (466)
Deferred income taxes	**723**	(133)
(Gain) loss on disposal of capital assets	**82**	(24)
Depreciation and amortization	**1,661**	1,450
Write-down of capital assets and deferred product development costs	**–**	299
	4,581	1,126
Net changes in non-cash operating working capital	**(858)**	(287)
	3,723	839
FINANCING ACTIVITIES		
Proceeds from long-term debt	**–**	1,804
Repayment of long-term debt	**(578)**	(554)
Advances from shareholders	**151**	92
Conversion of preferred shares	**(150)**	–
Proceeds from issuance of common shares	**181**	–
	(396)	1,342
INVESTING ACTIVITIES		
Business acquisition (Note 15)	**(875)**	–
Purchase of capital assets	**(1,581)**	(1,949)
Proceeds on disposal of capital assets	**15**	80
Pre-production costs capitalized	**–**	(225)
Product development costs capitalized	**–**	(157)
	(2,441)	(2,251)
Decrease (increase) in bank indebtedness during the year	**886**	(70)
Bank indebtedness, beginning of year	**(5,468)**	(5,398)
Bank indebtedness, end of year	**$ (4,582)**	$ (5,468)

See accompanying Notes to Consolidated Financial Statements

(all tabular amounts in thousands of dollars)

1. BASIS OF PRESENTATION

The Company is incorporated under the laws of the Province of Alberta. These consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. The amounts recorded for amortization of research and development costs are based on the estimated revenue-generating life of the product while the provision for warranty costs is determined based on historical experience. The amounts recorded for amortization of capital assets are based on estimates of the useful life or benefit of these assets. Due to inherent uncertainty involved in making such estimates, actual results could differ from those estimates.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

Capital assets

Capital assets, including those under capital leases, are recorded at cost. Amortization is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	10 - 20 years
Machinery and equipment	3 - 10 years
Leasehold improvements	term of lease

Research and development costs

Costs relating to the development of products which the Company believes are technically feasible and for which a clearly defined market exists are capitalized. Such product development costs are amortized over periods not exceeding the estimated revenue-generating life of the product. If costs are later determined to be unrecoverable or the product is no longer considered commercially viable, all unamortized costs are immediately charged to earnings. Research costs are expensed as incurred.

Pre-production costs

Pre-production and start-up costs incurred in connection with supply agreements are capitalized and deferred until commencement of commercial production. Pre-production costs are amortized on a straight-line basis over the term of the agreements, currently 5 years.

Goodwill

Goodwill is stated at cost less accumulated amortization and provision for impairment, if any. Amortization of goodwill is provided on a straight-line basis over a twenty-five year period. The determination of the recoverability of goodwill is based on the estimated future undiscounted cash flows of the business to which it relates.

Foreign currency translation

The Company's foreign currency transactions are translated using the temporal method whereby non-monetary assets and liabilities, revenues and expenses are translated at rates in effect on the date of the transaction. Monetary assets and liabilities are translated at year-end rates. Exchange gains and losses are reflected in earnings as they occur.

Warranty

Warranty costs, which are determined based on historical experience, are provided for at the time of sale.

Income taxes

The Company follows the deferral method of income tax allocation. Under this method, the tax effect of timing differences between reported and taxable income are accounted for as deferred income taxes. These timing differences arise primarily from differences in amortization for accounting and tax purposes.

3. INVENTORIES

	1998	1997
Raw materials	$ 3,439	$ 3,367
Work in process	1,709	1,841
Finished goods	2,950	774
	$ 8,098	$ 5,982

4. CAPITAL ASSETS

	1998			1997
	original cost	accumulated depreciation	net book value	net book value
Land	$ 253	–	$ 253	$ 253
Buildings	1,830	266	1,564	1,402
Machinery and equipment	8,253	3,105	5,148	4,916
Leasehold improvements	1,138	400	738	741
Machinery and equipment under capital leases	1,806	380	1,426	1,678
Construction in progress	120	–	120	–
	$ 13,400	$ 4,151	$ 9,249	$ 8,990

5. OTHER ASSETS

	1998			1997
	original cost	accumulated depreciation	net book value	net book value
Goodwill	$ 1,128	$ 200	$ 928	$ 973
Product development costs	435	86	349	424
Pre-production costs	373	97	276	331
Deferred financing charges	50	37	13	24
	$ 1,986	$ 420	$ 1,566	$ 1,752

6. BANK INDEBTEDNESS

Bank indebtedness represents advances under an authorized overdraft facility of $6,500,000 with interest payable at bank prime rate plus 1.00% per annum. The indebtedness is secured by a general assignment of book debts, an assignment of inventory, a second fixed charge over the Company's assets, and benefits under certain insurance contracts.

7. LONG-TERM DEBT

	1998	1997
Term loan, principal repayable at $25,000 monthly plus interest at 11.82% per annum, maturing January 31, 2000, secured by a general security agreement, a mortgage over certain property, an assignment of lease and a first charge over all capital assets.	**$ 2,050**	$ 2,350
Note payable to shareholder, repayable in monthly installments of $50,000, plus interest at 7.5% per annum, unsecured, due January 1, 2000. The shareholder has advised the Company that it is not its intention to demand repayment in the next 12 months and, accordingly, the amount has been classified as long-term.	**2,045**	1,894
Obligations under capital leases, interest rates range from 7.0% to 12.76%, repayable in monthly payments of $34,265 including interest. Specific assets have been pledged against the loans.	**1,321**	1,599
5,000 Series 2 non-voting preferred shares, bearing a cumulative dividend of 6%, payable quarterly. The shares are redeemable by the Company after April 3, 1998 under certain conditions and are convertible into 100,000 common shares at the holder's option. The shares must be redeemed by the Company at their stated value of $30 per share ($150,000 in aggregate) on April 3, 2000. Accordingly, the shares have been classified as long-term debt and dividends have been classified as interest expense.	**150**	300
	5,566	6,143
Less: Current portion	**598**	2,635
	$ 4,968	$ 3,508

Scheduled principal payments on long-term debt are as follows:

1999	$ 598
2000	4,234
2001	347
2002	209
2003	178
	$ 5,566

8. SHARE CAPITAL

A) The Company's authorized share capital consists of an unlimited number of preferred shares, issuable in series, and an unlimited number of common shares of no par value.

B) The Company's issued and outstanding share capital is as follows:

	Number of common shares	$
Balance, September 30, 1996 and 1997	6,267,253	$ 4,999
Issued from treasury on exercise of employees' stock options	21,650	31
Issued on conversion of 5,000 series 2 preferred shares	100,000	150
Balance, September 30, 1998	**6,388,903**	**$ 5,180**

A further 100,000 common shares have been reserved for the conversion of 5,000 series 2 preferred shares described in Note 7.

C) As at September 30, 1998, the Company had stock options outstanding as follows:

Number of options	Expiry date	Exercise price	Vested at September 30, 1998
49,000	November 1, 2000	$ 2.50	29,400
70,000	December 1, 2001	$ 1.50	28,000
5,000	September 22, 2002	$ 1.27	2,000
210,000	September 22, 2002	$ 1.00	84,000
75,150	December 16, 2002	$ 1.35	15,030
409,150			169,230

9. REVENUE

During the year, approximately 59% of the Company's revenue was earned from sales to two unrelated customers. In fiscal 1997 approximately 42% of the Company's revenue was earned from sales to one unrelated customer. During the year approximately 37% (1997 - 35%) of the Company's revenue was earned from sales to customers in the United States.

10. RESTRUCTURING COSTS

During 1997, the Company restructured its management organization and incurred the following costs:

Severance	$ 345
Recruiting, relocating, and training	164
Legal and consulting	115
	$ 624

11. INCOME TAXES

The Company's income tax provision is composed of:

		1998		1997
Current	$	**884**	$	103
Deferred		**723**		(133)
Total	$	**1,607**	$	(30)

The Company's effective income tax rate differs from that obtained by applying the basic corporate tax rate to earnings (loss) from operations for the following reasons:

		1998		1997
Income (loss) before income tax	$	**3,722**	$	(496)
Combined basic Canadian federal and provincial income tax expense (recovery) at 45.1%		**1,678**		(221)
Non-deductible depreciation and amortization		**64**		67
Non-deductible expenses		**129**		117
Manufacturing & processing credits		**(264)**		7
Income tax expense (recovery)	$	**1,607**	$	(30)

12. CONTINGENCIES

The Company is a defendant in two lawsuits. The results of these actions should not have any material affect on the financial position of the Company.

13. FINANCIAL INSTRUMENTS

The carrying values of accounts receivable, bank indebtedness, accounts payable, and accrued liabilities approximate their fair value due to relatively short periods to maturity of those instruments.

The fair values of long-term debt and redeemable preferred shares are determined by discounting the future contracted cash flows under current financing arrangements at discount rates which represent borrowing rates presently available to the Company for loans of similar terms and maturity.

The maximum credit risk exposure for all financial assets is the carrying amount of that asset. Since approximately 59% of the Company's revenue is from two customers (Note 9), there is a concentration of credit risk.

14. RELATED PARTY TRANSACTIONS

Included in selling, general, and administrative expenses is $200,000 (1997 - $200,000) paid to a shareholder pursuant to a management services agreement. Included in interest expense is $156,000 (1997 - $140,000) of interest on shareholders' notes.

Included in accounts payable and accrued liabilities is $45,000 (1997 - $48,000) owing to shareholders.

15. BUSINESS ACQUISITION

On September 30, 1998 the Company acquired a truck-mounted street sweeper and related parts business. Total cash consideration of $875,000 was paid for these assets, comprised of capital assets of $250,000 and inventory of $625,000. The Company has also committed to pay 40% of the related parts revenue over a three-year period in consideration for consulting services to be provided by the vendor of these assets, not to exceed $500,000.

16. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failures which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the entity, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.

17. COMMITMENTS

The Company has commitments under various operating leases as follows:

1999	$ 374
2000	338
2001	298
2002	289
2003	23

18. COMPARATIVE FIGURES

The 1997 comparative figures have been reclassified to conform with the financial statement presentation adopted in 1998.

19. SUBSEQUENT EVENT

On November 6, 1998 the Company entered into a five-year supply agreement with Volvo Trucks North America. The agreement involves the Company establishing a new production facility in Virginia to produce and supply all of Volvo's standard fuel tanks for its plant. The expected capital required, including working capital, is $4 million and will be funded by the Company through existing working capital and/or new lines of credit.

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STOCK EXCHANGE

Listed on the Alberta Stock Exchange
Symbol: NTG

60% recycled, including 30% post-consumer

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